

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS



HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

VIRGIN TOWN

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FINANCIAL SECTION



HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

Independent Auditors' Report

The Honorable Mayor and
Town Council
Virgin, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Virgin Town, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Virgin Town's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of Virgin Town as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2006, on our consideration of Virgin Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Virgin Town, Utah. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we express no opinion on it.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Virgin Town (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$ 1,224,107 at the close of the fiscal year.
- Total net assets increased by \$1,280.
- Total revenues from all sources were \$485,097 and the total cost of all Town programs was \$483,817.
- Total revenue received in the General Fund was \$105,618 less than the final budget and expenditures were \$114,713 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$(48,132), which is an increase from fiscal year 2005's unreserved fund balance deficit of \$(16,228).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's property tax base or jurisdiction, the availability of capital projects, and condition of the Town's assets to accurately assess the overall health of the Town. The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, highways and streets, parks and recreation, cemetery, community development, and capital outlay. Property taxes, sales taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business-type activities – The Town currently only has one proprietary activities fund, which is the water fund.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds that aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- **Governmental funds** – Most of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds reconciliation included with the Basic Financial Statements and Note 2.
- **Proprietary funds** – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$1,224,107 as of June 30, 2006 as shown on the following condensed statement of net assets. The Town has chosen to account for its water fund in an enterprise fund which is shown as a business-type activity.

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Current and other assets	\$ 116,842	\$ 195,883	\$ 95,138	\$ 64,812
Capital assets	185,576	155,201	996,289	1,023,708
Total assets	<u>302,418</u>	<u>351,084</u>	<u>1,091,427</u>	<u>1,088,520</u>
Long-term liabilities outstanding	7,001	13,725	104,468	107,328
Other liabilities	43,454	90,383	14,815	5,341
Total liabilities	<u>50,455</u>	<u>104,108</u>	<u>119,283</u>	<u>112,669</u>
Net assets:				
Invested in capital assets, net				
of related debt	178,575	141,476	891,821	916,380
Restricted	121,519	121,727	65,408	51,653
Unrestricted	(48,131)	(16,227)	14,915	7,818
Total net assets	<u>\$ 251,963</u>	<u>\$ 246,976</u>	<u>\$ 972,144</u>	<u>\$ 975,851</u>

Governmental Activities

The cost of all Governmental activities this year was \$346,766. \$106,647 of this cost was paid for by those who directly benefited from the programs, \$147,571 was subsidized by grants and contributions received from other governmental organizations and others for operations and capital activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$254,218. General revenues, including taxes and investment earnings totaled \$97,535.

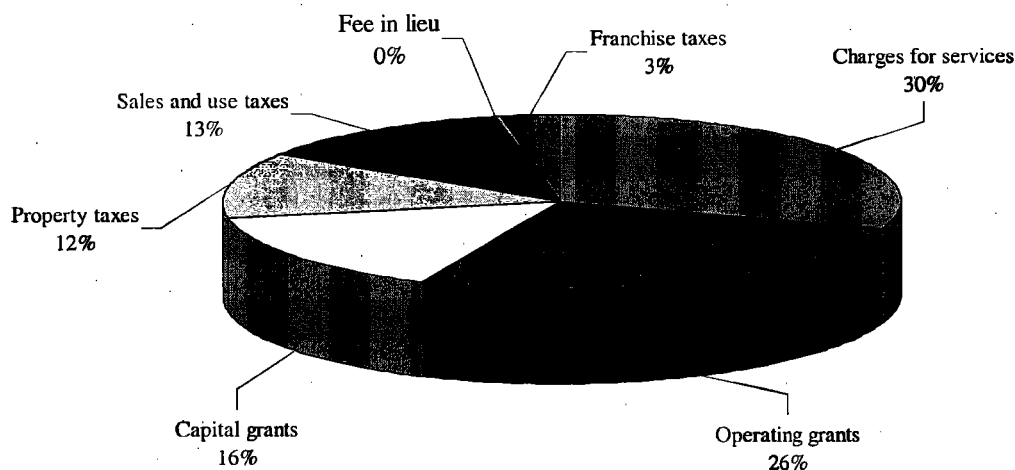
The Town's programs include: General Government, Public Safety, Highways and Streets, Parks and Recreation, Cemetery, and Community Development. Each program's revenues and expenses are presented below.

VIRGIN TOWN Changes in Net Assets				
	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Revenues:				
Program revenues:				
Charges for services	\$ 106,647	\$ 107,216	\$ 119,449	\$ 101,753
Operating grants and contributions	92,170	73,199	-	-
Capital grants and contributions	55,401	84,401	13,895	8,584
General revenues:				
Taxes	97,150	78,189	-	-
Other revenue/(expense)	385	40	-	-
Total revenues	<u>351,753</u>	<u>343,045</u>	<u>133,344</u>	<u>110,337</u>
Expenses:				
General Government	125,567	106,024	-	-
Public safety	98,657	78,361	-	-
Highways and streets	83,136	29,900	-	-
Culture and recreation	35,606	26,494	-	-
Cemetery	165	1,517	-	-
Community development	3,203	3,484	-	-
Interest on long term debt	432	630	2,799	1,543
Water distribution	-	-	134,252	119,115
Total expenses	<u>346,766</u>	<u>246,410</u>	<u>137,051</u>	<u>120,658</u>
Increase/(decrease) in net assets	4,987	96,635	(3,707)	(10,321)
Net assets, beginning	246,976	134,831	975,851	986,172
Prior-period adjustment	-	15,510	-	-
Net assets, ending	<u>\$ 251,963</u>	<u>\$ 246,976</u>	<u>\$ 972,144</u>	<u>\$ 975,851</u>

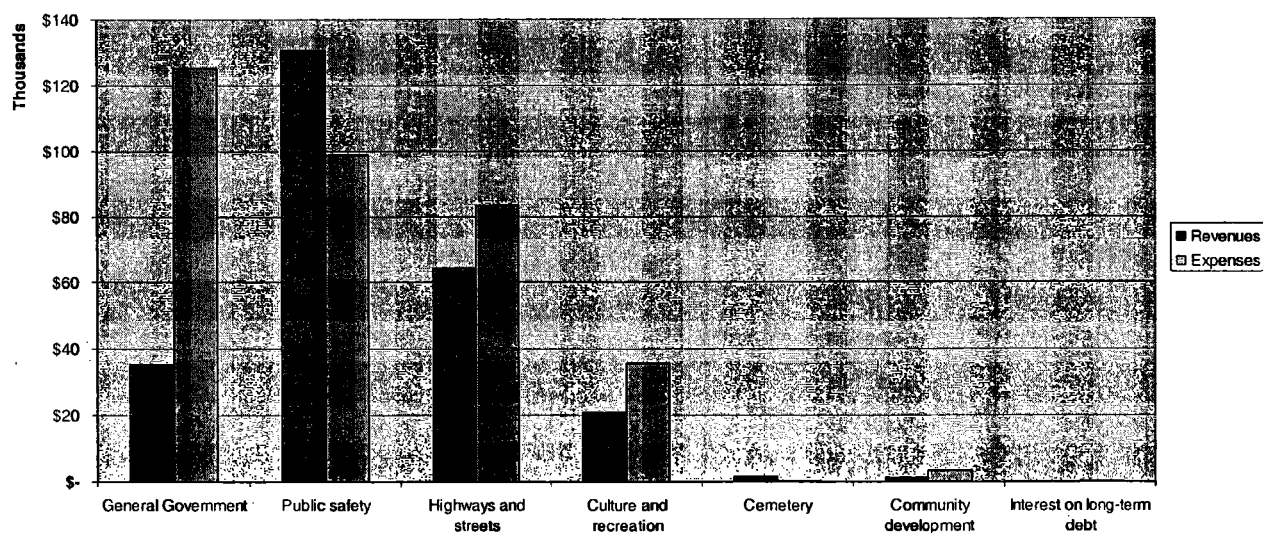
Total resources available during the year to finance governmental operations were \$598,729 consisting of Net assets at July 1, 2005 of \$246,976, program revenues of \$254,218 and General Revenues of \$97,535. Total Governmental Activities expenses during the year were \$346,766; thus Governmental Net Assets were increased by \$4,987 to \$251,963.

The following graphs provide a breakdown of revenues by source for all government activities and compare program expenses to program revenues.

Revenue By Source - Governmental Activities



Expenses and Program Revenues - Governmental Activities (in Thousands)



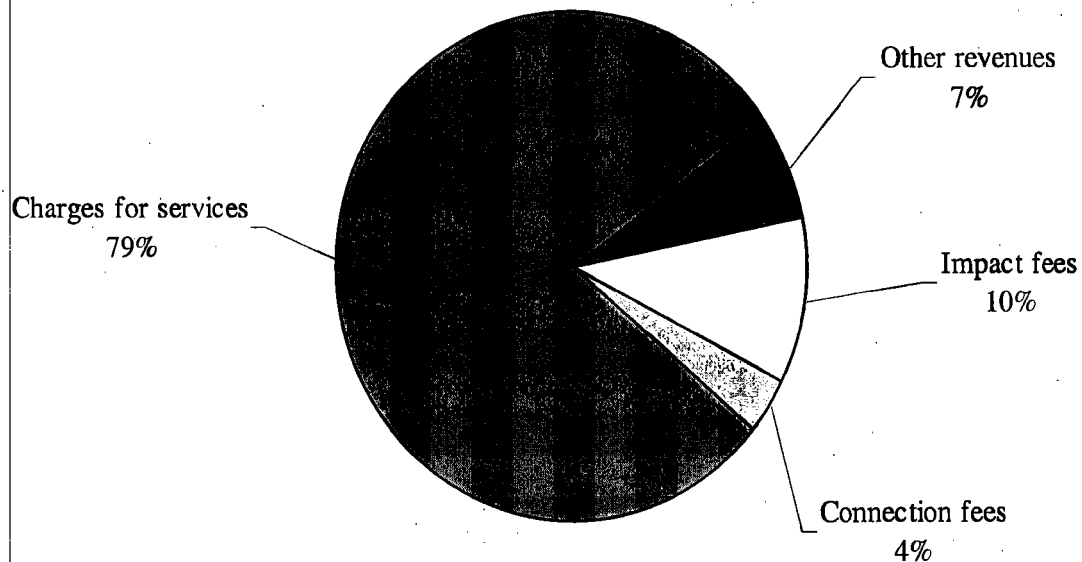
Business-Type Activities

The following graphs present water fund revenues and operating expenses compared with prior year activity.

WATER FUND REVENUES BY SOURCE Year ended June 30, 2005 and 2006

	<u>6/30/2005</u>	<u>6/30/2006</u>
REVENUES:		
Charges for services	\$93,425	\$ 105,610
Other revenues	6,328	8,839
Impact fees	8,584	13,895
Connection fees	<u>2,000</u>	<u>5,000</u>
Total Revenues	<u>\$110,337</u>	<u>\$ 133,344</u>

Revenues by Source - Current Year

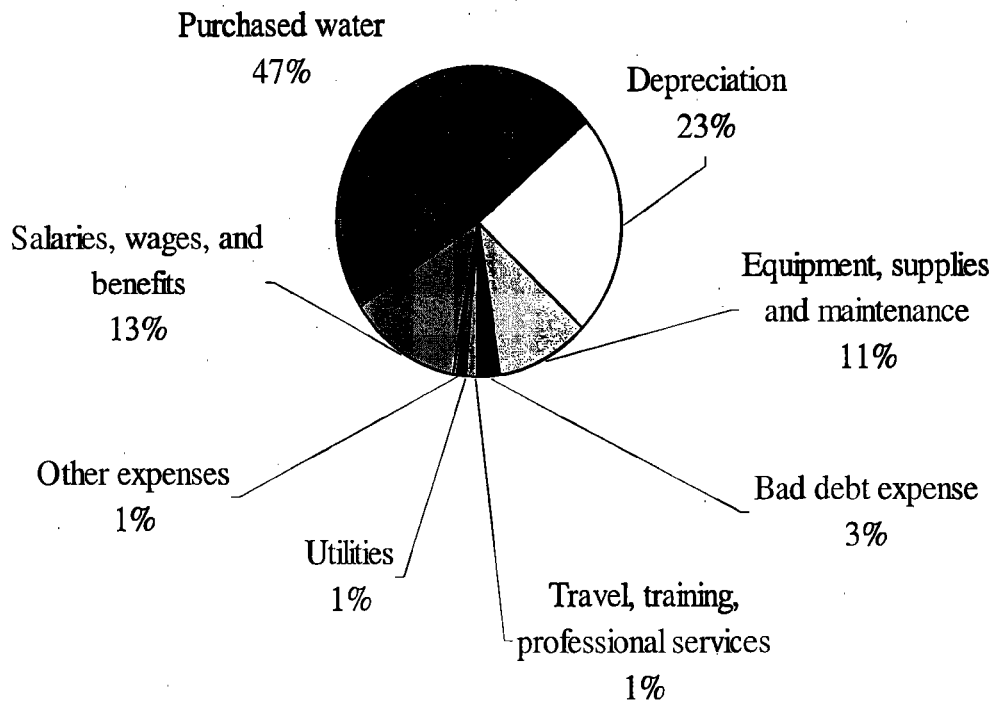


WATER FUND OPERATING EXPENSES

Year ended June 30, 2005 and 2006

	<u>6/30/2005</u>	<u>6/30/2006</u>
OPERATING EXPENSES:		
Salaries, wages, and benefits	\$ 15,341	\$ 20,593
Purchased water	57,553	58,696
Depreciation	27,419	27,419
Equipment, supplies and maintenance	12,613	16,889
Bad debt expense	3,002	590
Travel, training, professional services	1,558	2,917
Utilities	997	1,347
Other expenses	<u>632</u>	<u>5,801</u>
 Total Operating Expenses	 <u>\$ 119,115</u>	 <u>\$ 134,252</u>

Water Fund Operating Expenses - Current Year



General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$114,713 greater than actual expenditures. Actual revenues were less than the final budget by \$105,618 mainly due to the receipt of less intergovernmental revenue than previously anticipated. A budget amendment was made during the year to increase permit revenues and to adjust for the changes in class C road expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions. Capital Assets include land, buildings and improvements, furniture and equipment, computers and software, and infrastructure. At the end of fiscal year 2006, net capital assets of the government activities totaled \$185,576 and the net capital assets of the business-type activities totaled \$996,289. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

Debt

At year end, the Town had \$7,001 in governmental debt and \$104,468 in proprietary debt. These debts are liabilities of the government and amount to \$235 per capita based upon the 2004 estimated census population figures. During the current fiscal year, the Town's total debt increased by \$9,584. See Note 7 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2006/2007, the Town Board and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2005/2006.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ray Golata, Town Clerk, Virgin Town at 101 South Mill Street Virgin, UT 84779 or call 435-635-4695.

BASIC FINANCIAL STATEMENTS

VIRGIN TOWN
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ -	\$ 12,215	\$ 12,215
Receivables (net of allowance)	21,358	17,415	38,773
Prepays	8,669	100	8,769
Temporarily restricted assets:			
Cash and cash equivalents	86,815	65,408	152,223
Capital assets (net of accumulated depreciation):			
Land	7,100	80,937	88,037
Buildings and improvements	45,844	-	45,844
Furniture and equipment	129,162	-	129,162
Computers and software	3,470	-	3,470
Water distribution system	-	915,352	915,352
Total assets	<u>302,418</u>	<u>1,091,427</u>	<u>1,393,845</u>
Liabilities			
Accounts payable and other current liabilities	9,716	14,815	24,531
Deferred revenue	33,738	-	33,738
Noncurrent liabilities:			
Due within one year	7,001	8,930	15,931
Due in more than one year	-	95,538	95,538
Total liabilities	<u>50,455</u>	<u>119,283</u>	<u>169,738</u>
Net Assets			
Invested in capital assets, net of related debt	178,575	891,821	1,070,396
Restricted for:			
Capital outlay	-	51,799	51,799
Public safety	198	-	198
Culture and recreation	24,862	-	24,862
Highway and streets	92,094	-	92,094
Debt service	-	13,609	13,609
Perpetual care	4,365	-	4,365
Unrestricted	(48,131)	14,915	(33,216)
Total net assets	<u>\$ 251,963</u>	<u>\$ 972,144</u>	<u>\$ 1,224,107</u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General Government	\$ 125,567	\$ 35,191	\$ 173	\$ 4	\$ (90,199)	\$ -
Public safety	98,657	56,967	40,127	33,594	32,031	-
Highways and streets	83,136	2,961	49,129	12,281	(18,765)	-
Culture and recreation	35,606	9,974	2,741	8,158	(14,733)	-
Cemetery	165	1,554	-	-	1,389	-
Community development	3,203	-	-	1,364	(1,839)	-
Interest on long-term debt	432	-	-	-	(432)	-
Total governmental activities	346,766	106,647	92,170	55,401	(92,548)	-
Business-type activities:						
Water distribution	137,051	119,449	-	13,895	-	(3,707)
Total business-type activities	137,051	119,449	-	13,895	-	(3,707)
General Revenues:						
Taxes:						
Property taxes					42,336	42,336
Sales and use taxes					44,561	44,561
Fee in lieu					559	559
Franchise taxes					9,694	9,694
Unrestricted investment earnings					385	385
Total general revenues & transfers					97,535	97,535
Change in net assets					4,987	(3,707)
Net assets - beginning					246,976	975,851
Net assets - ending					\$ 251,963	\$ 972,144
					\$	\$ 1,224,107

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Assets:		
Cash	\$ -	\$ -
Receivables	2,211	2,211
Due from other governments	19,147	19,147
Prepaid expenses	8,669	8,669
Cash - restricted	86,815	86,815
Total Assets	<u><u>\$ 116,842</u></u>	<u><u>\$ 116,842</u></u>
Liabilities, and Fund Balances:		
Liabilities:		
Accounts payable	\$ 6,716	\$ 6,716
Impact fees payable	3,000	3,000
Deferred revenue	33,738	33,738
Total Liabilities	<u><u>43,454</u></u>	<u><u>43,454</u></u>
Fund Balances:		
Reserved:		
Highways and streets	92,095	92,095
Culture and recreation	24,862	24,862
Perpetual care	4,365	4,365
Public safety	198	198
Unreserved, reported in:		
General fund	(48,132)	(48,132)
Total fund balances	<u><u>73,388</u></u>	<u><u>73,388</u></u>
Total liabilities and fund balance	<u><u>\$ 116,842</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	185,576
Some liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(7,001)
Net assets of governmental activities	<u><u>\$ 251,963</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 42,336
Sales and use taxes	44,561
Fee in lieu	559
Franchise taxes	9,694
Licenses and permits	24,156
Intergovernmental revenue	111,331
Interest income	3,506
Donations	8,367
Cemetery	1,418
Impact Fees	20,637
Other revenues/donations	62,077
Garbage Fees	<u>23,111</u>
Total Revenues	<u>351,753</u>
Expenditures:	
Current:	
General Government	101,131
Public safety	148,654
Highways and streets	73,207
Culture and recreation	34,741
Cemetery	165
Community development	3,203
Garbage Collection	<u>22,764</u>
Total Expenditures	<u>383,865</u>
Net change in fund balances	(32,112)
Fund Balance - Beginning of Year	<u>105,500</u>
Fund Balance - End of Year	<u><u>\$ 73,388</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ (32,112)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	30,375
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>6,724</u>
Change in net assets of governmental activities	<u><u>\$ 4,987</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2006

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Property taxes	\$ 36,600	\$ 36,600	\$ 42,336	\$ 5,736
Sales and use taxes	43,000	43,000	44,561	1,561
Fee in lieu	2,000	2,000	559	(1,441)
Franchise taxes	8,000	8,000	9,694	1,694
Licenses and permits	15,150	21,649	24,156	2,507
Intergovernmental revenue	201,760	201,758	111,331	(90,427)
Interest income	215	226	3,506	3,280
Donations	-	4,376	8,367	3,991
Cemetery	750	749	1,418	669
Impact Fees	15,000	20,850	20,637	(213)
Other revenues/donations	70,419	95,163	62,077	(33,086)
Garbage Fees	23,000	23,000	23,111	111
Total Revenues	<u>415,894</u>	<u>457,371</u>	<u>351,753</u>	<u>(105,618)</u>
Expenditures:				
Current:				
General Government	95,091	101,345	101,131	214
Public safety	251,620	247,363	148,654	98,709
Highways and streets	55,215	71,216	73,207	(1,991)
Culture and recreation	52,654	51,154	34,741	16,413
Cemetery	-	1,500	165	1,335
Community development	3,000	3,000	3,203	(203)
Garbage Collection	25,000	23,000	22,764	236
Total Expenditures	<u>482,580</u>	<u>498,578</u>	<u>383,865</u>	<u>114,713</u>
Net change in fund balance	(66,686)	(41,207)	(32,112)	9,095
Fund Balance - Beginning of Year	<u>105,500</u>	<u>105,500</u>	<u>105,500</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 38,814</u>	<u>\$ 64,293</u>	<u>\$ 73,388</u>	<u>\$ 9,095</u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Statement of Net Assets
Proprietary Fund
June 30, 2006

	<u>Water Fund</u>
Assets:	
Current assets:	
Cash	\$ 12,215
Receivables, net of allowance	17,415
Prepaid expenses	100
Restricted cash	65,408
Total current assets	<u>95,138</u>
Noncurrent assets:	
Land	80,937
Machinery and equipment	2,867
Water distribution system	1,373,747
Accumulated depreciation	(461,262)
Total noncurrent assets	<u>996,289</u>
Total Assets	<u>1,091,427</u>
Liabilities:	
Current liabilities:	
Accounts payable	14,815
Current portion of noncurrent liabilities	8,930
Total current liabilities	<u>23,745</u>
Noncurrent liabilities:	
Bonds payable	104,468
Less current portion of noncurrent liabilities	(8,930)
Total noncurrent liabilities	<u>95,538</u>
Total liabilities	<u>119,283</u>
Net Assets:	
Invested in capital assets, net of related debt	891,821
Restricted for:	
Debt service	13,609
Capital outlay	51,799
Unrestricted	14,915
Total Net Assets	<u>\$ 972,144</u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	<u>Water Fund</u>
Operating Revenues	
Charges for services	\$ 105,610
Other revenues	<u>8,839</u>
Total operating revenues	<u>114,449</u>
Operating Expenses	
Salaries and wages	19,124
Payroll taxes and benefits	1,469
Purchased water	58,696
Depreciation	27,419
Equipment, supplies and maintenance	16,889
Bad debt expense	590
Travel, training, and professional services	2,917
Utilities	1,347
Other expenses	<u>5,801</u>
Total operating expenses	<u>134,252</u>
Operating income (loss)	<u>(19,803)</u>
Non-operating Revenues (Expenses)	
Impact fees	13,895
Connection fees	5,000
Interest expense	<u>(2,799)</u>
Total non-operating revenues (expenses)	<u>16,096</u>
Change in net assets	(3,707)
Net assets, beginning of the year	<u>975,851</u>
Net assets, end of the year	<u><u>\$ 972,144</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	Water Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 106,571
Cash paid to suppliers	(76,766)
Cash paid to employees	(20,693)
Cash flows from operating activities	<u>9,112</u>
Cash Flows From Capital and Related Financing Activities:	
Principal paid on long-term debt	(2,860)
Impact fees	13,895
Connection fees	5,000
Interest expense	(2,799)
Cash flows from capital and related financing activities	<u>13,236</u>
Cash Flows From Investing Activities:	
Interest on investments	-
Cash flows from investing activities	<u>-</u>
Net Change in Cash and Cash Equivalents	22,348
Cash and cash equivalents, beginning of year	<u>55,275</u>
Cash and cash equivalents, end of year	<u><u>\$ 77,623</u></u>
Reconciliation of operating income (loss) to cash flows from operating activities:	
Net operating income (loss)	\$ (19,803)
Adjustments to reconcile net income (loss) to cash flows from operating activities:	
Depreciation	27,419
Changes in operating assets and liabilities	
(Increase)/Decrease in receivables	(7,878)
(Increase)/Decrease in prepaid expenses	(100)
Increase/(Decrease) in accounts payable	9,474
Net cash flows from operating activities	<u><u>\$ 9,112</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies

General

Virgin Town (Town) is incorporated under the laws of the State of Utah. The Town operates under a council form of government and provides the following services: general government, public safety, highways and streets, parks and recreation, cemetery, community development, and garbage collection services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

Reporting Entity

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Town.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as recorded as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

The Town reports the following major governmental fund:

The **General Fund** is used to account for all financial resources applicable to the operations of the Town.

The Town reports the following major proprietary fund:

The **Water Fund** is used to account for the provision of water distribution services to the residents of the Town.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1998, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants as contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charged to customers for sales and services.

Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

Receivables and Payables

Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented. All trade accounts receivable in the proprietary fund are shown net of an allowance for uncollectibles.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the Town's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the assets estimated useful lives.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets in governmental funds, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In accordance with GASB 34, the Town has opted not to retroactively report infrastructure fixed assets. Infrastructure normally includes assets such as roads, curb and gutter, sidewalks, street lighting, storm drains and other improvements.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Furniture and equipment	5-7 years
Computers and software	3-7 years
Water distribution system	20-50 years
Infrastructure	20 years

Accrued Benefits

Accumulated unpaid vacation and other employee benefit amounts are accrued at year end only when the Town has such a liability.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. The differences primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net asset includes those capital assets among the assets of the Town as a whole.

Cost of capital assets	\$ 360,362
Accumulated depreciation	<u>(174,786)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 185,576</u>

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 62,952
Depreciation expense	<u>(32,577)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets - governmental activities	<u>\$ 30,375</u>

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 3. Stewardship Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are reported and adopted by the Town Council on or before June 22 for the fiscal year commencing the following July 1 in accordance with State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State Law, at the department level. Budget amendments are required to increase expenditure budgets and are adopted, in a public hearing, before the end of the fiscal year.

The General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

During the current fiscal year, budget amendments were made to prevent budget overruns and to increase appropriations for unanticipated expenditures.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the Town in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 for all real property located in the Town. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 4. Deposits and Investments

Deposits and investments of the Town at June 30, 2006 consist of the following:

Deposits:

Cash on hand	\$ 200
Cash in bank	73,952

Investments:

State treasurer's investment pool	90,286
Total deposits and investments	<u>\$ 164,438</u>

A reconciliation of cash and cash equivalents as shown on the statement of net assets is as follows:

Cash and cash equivalents	\$ 12,215
Restricted cash and cash equivalents	152,223
Total	<u>\$ 164,438</u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Town follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Town funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. As of June 30, 2006, none of the Town's bank balance of \$86,336 was exposed to custodial credit risk because it was uninsured and uncollateralized.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 4. Deposits and Investments, Continued

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 4. Deposits and Investments, Continued

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 90,286	\$ 90,286	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 90,286</u>	<u>\$ 90,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 90,286	\$ -	\$ -	\$ -	\$ 90,286
Total Fair Value	<u>\$ 90,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,286</u>

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 5. Receivables

Receivables shown on the balance sheet of the proprietary fund are amounts due from residents for water services. Receivables are shown net of allowance for doubtful accounts of \$1,500.

NOTE 6. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Governmental Activities:	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital assets, not being depreciated:				
Land	\$ 7,100	\$ -	\$ -	\$ 7,100
Total capital assets, not being depreciated	<u>7,100</u>	<u>-</u>	<u>-</u>	<u>7,100</u>
Capital assets, being depreciated:				
Buildings & improvements	130,358	-	-	130,358
Furniture & equipment	147,754	60,455	-	208,209
Computers and software	12,198	2,497	-	14,695
Total capital assets, being depreciated	<u>290,310</u>	<u>62,952</u>	<u>-</u>	<u>353,262</u>
Less accumulated depreciation for:				
Buildings & improvements	(81,397)	(3,117)	-	(84,514)
Furniture & Equipment	(51,730)	(27,317)	-	(79,047)
Computers and software	(9,082)	(2,143)	-	(11,225)
Total accumulated depreciation	<u>(142,209)</u>	<u>(32,577)</u>	<u>-</u>	<u>(174,786)</u>
Total capital assets, being depreciated, net	<u>148,101</u>	<u>30,375</u>	<u>-</u>	<u>178,476</u>
Governmental activities capital assets, net	<u>\$ 155,201</u>	<u>\$ 30,375</u>	<u>\$ -</u>	<u>\$ 185,576</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 1,672
Highways and streets	9,929
Parks & recreation	865
Public safety	20,111
Total depreciation expense - governmental activities	<u>\$ 32,577</u>

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 6. Capital Assets, Continued

Business-Type Activities:	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital assets, not being depreciated:				
Land	\$ 80,937	\$ -	\$ -	\$ 80,937
Total capital assets, not being depreciated	80,937	-	-	80,937
Capital assets, being depreciated:				
Water distribution system	1,373,747	-	-	1,373,747
Furniture and equipment	2,867	-	-	2,867
Total capital assets, being depreciated	1,376,614	-	-	1,376,614
Less accumulated depreciation for:				
Water distribution system	(430,976)	(27,419)	-	(458,395)
Furniture and equipment	(2,867)	-	-	(2,867)
Total accumulated depreciation	(433,843)	(27,419)	-	(461,262)
Total capital assets, being depreciated, net	942,771	(27,419)	-	915,352
Business-type activities capital assets, net	<u>\$ 1,023,708</u>	<u>\$ (27,419)</u>	<u>\$ -</u>	<u>\$ 996,289</u>

NOTE 7. Long-term Debt

The following is a summary of long-term debt for the year ended June 30, 2006:

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
Governmental Activities:					
Capital leases	\$ 13,725	\$ -	\$ (6,724)	\$ 7,001	\$ 7,001
Total governmental activities	13,725	-	(6,724)	7,001	7,001
Business-type Activities:					
Revenue bonds	107,328	-	\$ (2,860)	104,468	8,930
Total business-type activities	107,328	-	(2,860)	104,468	8,930
Total long-term liabilities	<u>\$ 121,053</u>	<u>\$ -</u>	<u>\$ (9,584)</u>	<u>\$ 111,469</u>	<u>\$ 15,931</u>

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 7. Long-term Debt, Continued

Long term debt consists of the following issues at June 30, 2006:

Water Revenue Bonds:

Permanent Community Impact Board Fund Bonds, due in annual installments of principal and interest of \$5,000, bearing interest at 3%, maturing June 1, 2018.	\$ 54,579
Water Revenue Bonds Series 1996 C, due in annual principal and interest installments ranging from \$3,384 to \$2,117, bearing interest at 6.05% to 5.85%, maturing June 1, 2016.*	19,500
Rural Economic Development Bond, due in monthly principal and interest installments of \$182, bearing interest at 4.5%, maturing September 30, 2028.	30,389
Total bonds payable	<u>104,468</u>
Leases Payable:	
Lease payable in monthly installments of \$596 through June 2007, at interest of 4.05 percent.	7,001
Total leases payable	<u>7,001</u>
Total long-term debt	111,469
Less current portion:	
Business-type activities	(8,930)
Governmental-type activities	<u>(7,001)</u>
Net long-term debt	<u>\$ 95,538</u>

*The Town has entered into a water supply agreement with the Washington County Water Conservancy District (The District) wherein the District will make these debt payments and the Town will purchase water from the District. During the year ended June 30, 2006, the Town paid the District \$58,696 for water.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 7. Long-term Debt, Continued

The annual requirements to amortize long-term debt outstanding at June 30, 2006, are as follows:

Fiscal Year Ended June 30	Water Revenue Bonds	
	Principal	Interest
2007	8,930	5,749
2008	6,353	3,884
2009	6,500	3,618
2010	6,650	3,353
2011	6,806	3,160
2012-2016	36,567	11,128
2017-2021	19,335	4,588
2022-2026	8,803	2,117
2027-2029	4,524	261
Total	<u>\$ 104,468</u>	<u>\$ 37,858</u>

NOTE 8. Capital Leases

The Town has entered into a lease purchase agreement that is considered a capital lease in accordance with Financial Accounting Standards Board statement number 13. The lease proceeds were used to purchase a police vehicle in the General Fund. The following is a schedule of future minimum lease payments with an interest rate of 4.05% for the capital lease, together with the present value of net minimum lease payments:

Year Ending June 30	
2007	7,156
Total remaining minimum lease payments	7,156
Less amount representing interest	(155)
Present value of net remaining minimum lease payments	<u>\$ 7,001</u>

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 9. Equity Classifications

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved or unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2006, the Town's reserved fund balances are as follows:

General Fund:

Class B & C roads	\$ 42,885
Impact fees - streets	49,210
Impact fees - parks	24,862
Impact fees - fire	134
Impact fees - police	64
Cemetery perpetual care	4,365
Total	<u><u>\$ 121,520</u></u>

Water Fund:

Debt reserves	\$ 13,609
Impact fees - water	51,799
Total	<u><u>\$ 65,408</u></u>

NOTE 10. Retirement and Pension Plan

The Town has not elected to be part of the Utah State Local Government Retirement System, and therefore, does not have any employees that participate in the Utah State Local Government Retirement System.

VIRGIN TOWN
Notes to the Financial Statements
June 30, 2006

NOTE 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has insurance protection, and the limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

NOTE 12. Garbage Contract

The Town has a contract with the Washington County Solid Waste Special Service District. The Town is responsible for monthly billings, collections, and payments to the district, which is accounted for in the General Fund.

NOTE 13. Contingent Liabilities and Commitments

The Town is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of Town Management, based on the advice of the Town Attorney with respect to such litigation, such matters will not have a material adverse effect on the Town's financial position at June 30, 2006.

NOTE 14. Operating Leases

The Town entered into one operating lease during the year for heavy equipment. Total cost for such lease was \$15,295 for the year ended June 30, 2006. The future minimum lease payments for this lease are as follows:

Year Ending	Total
June 30,	
2007	\$ 14,295
2008	14,295
Total remaining lease payments	<u>\$ 28,590</u>

SUPPLEMENTARY INFORMATION

VIRGIN TOWN
Supplementary Information – Bond Disclosures
June 30, 2006

The Water System Revenue Bond Resolution sets forth certain covenants and restrictions. Virgin Town is in compliance with all covenants and restrictions for the Water Bond requirements. Adequate funds are available in the water fund for reserve requirements.

Additional disclosures requirement by the resolution:

Number of connections within the boundaries of the Town at June 30, 2006	199
Total billings for the fiscal year ended June 30, 2006	\$ 97,944

Water rates for the fiscal year ended June 30, 2006 are as follows:

0 to 15,000 gallons	\$31.00 per month
Over 15,000 gallons	\$2.00 per 1,000 gallons

Insurance coverage in effect at June 30, 2006:

Type	Policy Number	Effective	Expires	Limits
General Liability	TGL449	06/30/93	Continuous	\$ 2,000,000
Auto	TGL449	06/30/93	Continuous	2,000,000
Property Building	TGL449	06/30/93	Continuous	492,150
Property Contents	TGL449	06/30/93	Continuous	11,783
Position Schedule Bond - Mayor & Town Clerk	22191806	05/07/06	05/07/07	46,950
Position Schedule Bond - Treasurer	68655883	09/18/06	09/18/07	40,000
Public Employees Blanket Bond	70094973	05/02/06	Continuous	40,000
Notary Bond	69547945N01	06/30/03	06/30/07	10,000

VIRGIN TOWN
Supplementary Information – Impact Fees
June 30, 2006

During the 2006 legislative session, the Utah Legislature modified *UC 10-5-29* and *UC17A-1-4* requiring governments who collect impact fees to provide additional reporting in their financial statements. The following schedule presents the required information:

	2004	2005	2006
<u>Streets Impact Fees</u>			
Revenues	7,338	6,309	12,281
Interest	34	1,129	-
Expenditures	-	-	-
Explanation of Expenditure	-	-	-
Accumulated Balance	29,492	36,929	49,210
<u>Parks Impact Fees</u>			
Revenues	4,997	4,278	8,158
Interest	29	61	-
Expenditures	(2,338)	-	-
Explanation of Expenditure	Park Improve.	-	-
Accumulated Balance	12,364	16,704	24,862
<u>Water Impact Fees</u>			
Revenues	9,160	8,463	13,667
Interest	41	121	228
Expenditures	-	-	(301)
Explanation of Expenditure	-	-	Capital Facility Plan
Accumulated Balance	29,621	38,205	51,799
<u>Fire Impact Fees</u>			
Revenues	-	-	134
Interest	-	-	-
Expenditures	-	-	-
Explanation of Expenditure	-	-	-
Accumulated Balance	-	-	134
<u>Police Impact Fees</u>			
Revenues	-	-	64
Interest	-	-	-
Expenditures	-	-	-
Explanation of Expenditure	-	-	-
Accumulated Balance	-	-	64

FEDERAL AND STATE REPORTS

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HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Town Council
Virgin, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities and business-type activities of Virgin Town, Utah, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Virgin Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of Virgin Town in a separate letter dated December 29, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virgin Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of Virgin Town in a separate letter dated December 29, 2006.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 29, 2006.



HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAS & ADVISORS

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
Town Council
Virgin, Utah

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Virgin Town, Utah for the year ended June 30, 2006, and have issued our report thereon dated December 29, 2006. As part of our audit, we have audited Virgin Town's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property tax Limitations
Liquor Law Enforcement
B & C Road Funds
Other General Compliance Issues
Uniform Building Code
Impact Fees & Other Development Fees
Asset Forfeitures

The management of Virgin Town is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

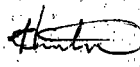
MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
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MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying findings and recommendations letter. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Virgin Town, Utah, complied, in all material aspects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

 Hinton, Burdick, Hall & Spilker PLLC

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 29, 2006



HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAS & ADVISORS

VIRGIN TOWN
Findings and Recommendations
For the Year Ended June 30, 2006

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

Honorable Mayor and
Town Council
Virgin Town, Utah

During our audit of the funds of Virgin Town for fiscal year 2005-2006, we noted improvements in the Town's accounting and budgeting system and wish to commend the Town for making changes and improvements. We also noted areas needing corrective action in order for the Town to be in compliance with laws and regulations and we found circumstances that, if improved, would strengthen the Town's accounting system and control over its assets. These items are discussed below for your consideration:

Compliance Findings and Recommendations:

05-01. Budgetary Compliance

Finding

Utah law states that officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that highways and streets and community development expenditures exceeded the final appropriation amounts for the year ended June 30, 2006.

Recommendation

We recommend that the Town monitor closely the expenditures for each department to ensure that budget overruns do not occur in future fiscal periods. We also recommend that the Town amend its budget when additional revenues or expenditures are anticipated which were not included in the original budget.

05-02. Budgeted Property Tax Revenues

Finding

The Tax Commission requires the filing of form TC-693 *Tax Rate Summary*. The form includes a column "Budgeted Revenue." The amounts in that column should be the same as the revenue amounts in the entity's adopted budget.

We noted during our audit that the budgeted revenue column on the TC-693 for the applicable year was \$26,501 while the budgeted revenue per the Town's final adopted budget was \$35,000.

Recommendation

We recommend that the Town establish a procedure to ensure that the budgeted property tax revenues for the fiscal year always agrees with the TC-693 budgeted revenues for the appropriate fiscal year.

05-03. Impact Fee Accounting

Finding

The State of Utah Legal Compliance audit guide states the following:

"Each local political subdivision collecting impact fees shall:

- a. establish separate interest bearing ledger accounts for each type of public facility for which an impact fee is collected;
- b. deposit impact fee receipts in the appropriate ledger account;
- c. retain the interest earned on each fund or account in the fund or account; and
- d. at the end of each fiscal year, prepare a report on each fund or account showing:
 - 1) the source and amount of all monies collected, earned, and received by the fund or account; and
 - 2) each expenditure from the fund or account.

This report is a public document and should be available for public inspection during regular office hours. (*Utah Code 11-36-301*)"

We concluded during our test work, that impact fees are being collected properly and spent in accordance with State law; however, as is stated in item d. above, a report was not prepared by management at year end to show an accounting for the impact fees.

Recommendation

We recommend that management prepare an accounting as specified above at the end of each fiscal year for impact fees to comply with State law. As the schedule is prepared, it should clearly indicate whether the impact fees have been spent within the six year time frame designated by law.

05-05. Deficit Fund Balance

Finding

When a deficit fund balance exists in the prior year for a Town, the entire deficit fund balance should be budgeted to be made up in the following year. We noted that the Town did not budget to make up the deficit fund balance on its fiscal year 2006 budget. If deficits arise from emergencies, then a Town is allowed five years to make up the deficit. Our understanding is that the fund deficit was created by employee theft prior to June 30, 2003. As such, we believe the State Auditor would grant a five year relief period to correct the deficit fund balance position.

Recommendation

We recommend that the Town budget to make up the deficit fund balance in the general fund as soon as possible.

06-01. Public Hearing Notice - Evidence

Finding

The governing body of the entity shall establish the time and place of the public hearing to consider the adoption of the budget and shall publish notice of the hearing at least seven days prior to the hearing in at least one issue of a newspaper of general circulation published within the county in which the entity is located. If no such newspaper is published, the required notice may be posted in three public places within the entity's jurisdiction. The tentative budget must be made available to the public for inspection for a number of days, as provided by law, prior to the budget hearing. We noted that resolution 2005-20A stated that the Town properly posted in three public places the notice of public hearing for the fiscal year 2006 budget hearing; however, we were unable to verify that public notice was given in the local newspaper.

Recommendation

We recommend that the Town maintain documentation supporting budget hearing notices as proof that the Town followed the budget hearing requirements set forth by State law.

General Findings and Recommendations:

05-01. Segregation of Duties

Findings

We understand that the size of the Town and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; as a result, custody of assets and recording functions are not properly segregated for the cash receipts and expenses/accounts payable functions. Management has implemented controls such as management's review of disbursements that mitigate this weakness such that it is not deemed to be a material weakness; however, such segregation of duties provide important safeguards and controls to insure the proper recording, deposit and disposition of the Town's funds.

Recommendation

As the Town continues to grow and additional staff are considered necessary, we recommend that management consider ways that segregation of duties can be achieved within its accounting and administrative functions. We would be happy to assist the Town in the design and/or implementation of job descriptions and duties to properly achieve this segregation. We also recommend that management continue to monitor disbursements and that a member of the audit committee or Town council begin reviewing the bank reconciliations to further mitigate the lack of segregation of duties.

05-02. Centralized Accounting Procedures

Finding

During our test work, we noted that various activities having a bearing on the Town's financial position are being conducted outside of the close supervision of the Town Clerk/Treasurer who is charged with overseeing the financial matters of the Town. For example, the BMX and fire department activities appear to be functioning independent of the Town Clerk / Treasurer. Close supervision and greater communication with these and

other activities is needed in order for the Town Clerk/Treasurer to protect the Town's assets.

Recommendation

We recommend that the Town re-emphasize its established centralized accounting system procedures. All financial transactions, including grant revenues and expenditures, should be under the supervision of the Town Clerk/Treasurer and the governing Council. All receipts and disbursements of funds related to the Town should be handled through the established centralized accounting system.

06-01. Minutes Documentation

Finding

We noted during our test work that the Town is currently documenting the Town minutes word for word.

Recommendation

We recommend that the Town review an article published on the Utah League of Cities and Towns website called "Minutes and Such" written by the League's attorney David Church, Esq. We recommend that the Town begin preparing minutes focusing on action items for the Town and the substance of discussions.

06-02. Permanent Community Impact Board Bond Payment

Finding

We noted while doing our test work that the Town did not make its scheduled payment on the permanent community impact board bonds. The scheduled payment was due 06/1/06. The payment was not made until 7/10/06.

Recommendation

We recommend that the Town establish procedures to make timely payments on significant transactions such as bond payments.

06-03. Retirement Benefits for Qualifying Employees

Finding

We observed that the Town's personnel handbook states the following "All full time the Town of Virgin employees are covered by the Utah State Retirement System, unless otherwise authorized by the City Council according to State Law." As of June 30, 2006, the Town had not elected to participate in the Utah State Local Government Retirement System.

Recommendation

We recommend that the Town reevaluate the issue of retirement benefits for full time employees and take action to clarify its policy.

06-04. Town Accounting and Reporting Functions

Finding

The Town's accounting and reporting functions are significantly in arrears. To complete the FY06 audit, the Town Clerk and new Town Treasurer spent many hours catching up the transaction processing and bank reconciliations for the Town. It is our understanding that the transaction processing and bank reconciliations for the Town after June 30, 2006 are still in arrears.

Recommendation

We recommend that the Town's management evaluate the accounting and reporting situation as it currently stands and implement the needed changes to enable the Town to keep the accounting and reporting functions current.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, Town Council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the Town this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

Hinton, Burdick, Hall, & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 29, 2006

GATEWAY TO KOLOB
MAYOR John Grow

ZONING ADMINISTRATOR
Lenny Brinkerhoff

VIRGIN TOWN
101 S. Mill Street
PO Box 790008
Virgin, Utah 84779
(435) 635-4695 fax (435) 635-0265

TOWN
COUNCIL
Bruce Densley
P. Lee Ballard
Luke Stevens

February 27, 2007

Mr. Richard Moon
State of Utah
Office of the State Auditor
Utah State Capital Complex
East Office Building, Suite E310
P.O. Box 142310
Salt Lake City, Utah 84114-2310

Dear Mr. Moon:

It is our understanding that the Town's accounting firm, Hinton, Burdick, Hall & Spilker, PLLC, has electronically submitted a UT Form/Survey of Local Governments for fiscal year 2006 on behalf of Virgin Town.

Enclosed you will find a copy of our 2006 Financial Report that was also prepared by our accounting firm, Hinton, Burdick, Hall & Spilker, PLLC. The financial statements for the year ended June 30, 2006, along with Independent Auditors' Report were reviewed and approved at a Special Town Council meeting held February 9, 2007.

The following represents Virgin Town management's responses to the audit Findings and Recommendations for the Year Ended June 30, 2006, beginning on page 44.

Compliance Findings and Recommendations

05-01. Budgetary Compliance

Measures have been taken to install the Town's 2006-2007 budget on the Caselle budgeting program. It is expected monitoring reports available through the Caselle budgeting program will be provided to the Mayor and Town Council every month, beginning at the March 2006 Town Council meeting. This level of information will allow quicker identification of excessive expenditure situations, so appropriate actions may be taken in a much more expedient manner.

05-02. Budgeted Property Tax Revenues

The \$8,499 discrepancy between the budgeted revenue column on Utah Form TC-693 Tax Rate Summary and the Town's finally adopted budget was a result of adjusting entries. This action was taken in order to bring the Town's 2005-2006 originally adopted budget revenues in balance with expenses. Closer monitoring of the Town's budget through the Caselle program should eliminate situations, where budgeted property tax revenues differ with TC-693 amounts.

05-03. Impact Fee Accounting

A schedule will be prepared as of June 30th each year to satisfy Utah Code impact fee reporting requirements. The schedule will provide necessary information on the expenditures made from each impact fee fund/account. It will allow a clear record as to whether collected impact fees have been spent within the six year time frame designated by the law.

05-05. Deficit Fund Balance

The failure to make up the deficit fund balance from the prior year was due to a sizeable employee theft that occurred prior to 6/30/2003. We are requesting that the State Auditor's Office grant us a five year relief period to correct this deficit balance position caused by this unusual circumstance. Also, beginning with the 2006-2007 budget, we will have a specific line item in our budget to better track our efforts at eliminating the deficit balance in this general fund.

6-01. Public Hearing Notice - Evidence

We were unable locate documentation verifying that a public notice was published in a local newspaper at least seven days prior to the adoption of the 2005-2006 budget in June 2005. Such documentation does exist for the public notice that was published in a local newspaper before the 2006-2007 budget, which was adopted in June 2006. It is management's intentions that such notices will be given before the adoption of future fiscal year budgets.

General Findings and Recommendations

Management's responses

05-01. Segregation of Duties

With the recent departure of our Assistant Town Clerk, implementation of a segregation of duties by the administrative staff is very limited, as the Town Clerk is the only person currently on the administrative staff.

We do, however, require two signatures on all checks issued by the town. In addition, the mayor personally reviews and initials all invoices and expenditures. Our independent Town Treasurer also regularly reviews bank reconciliements to further mitigate the limited segregation of duties, which currently exist.

The town has placed advertisements to hire an assistant. Filling the assistant position will allow for implementation of cross-training and a segregation of duties among the administrative staff.

05-02. Centralized Accounting Procedures

The Town Clerk with guidance from the Town Treasurer plans to consolidate the separate bank checking accounts being maintained for the BMX Track Park and the Virgin Volunteer Fire Department into two separate interest-bearing Utah Public Treasurer's Investment Funds. It is expected that this action will be taken by the end of March 2007.

It should be noted, however, that the records, deposit slips, and checks for the two separate checking accounts used by the BMX Track Park and the Virgin Volunteer Fire Department are being solely maintained under the control of the Town Clerk.

06-01. Minutes Documentation

The town has recently begun to prepare minutes on the various committee and Town Council meetings on an action item basis, with summarization of substance discussions. This is a significant shift from the previously followed format that emphasized a word-for-word documentation procedure.

06-02. Permanent Community Impact Board Bond Payment

The failure to make the 6/1/2006 scheduled payment on a permanent community impact board bond was the result of a severe cash flow problem. Measures have been taken to address this situation, and it is anticipated that 2007 payments on this bond will be made on a timely basis.

06-03. Retirement Benefits for Qualifying Employees

The failure of the town to address the issue of retirement benefits for full time employees, as stipulated in the town's personnel handbook, will be addressed at the March 28, 2007 Town Council meeting.

06-04. Town Accounting and Reporting Functions

It is anticipated that transaction processing and bank reconciliations of daily work will be caught up with the addition of an assistant to the administrative staff. The new Town Treasurer is expected to closely monitor the progress of the Town Clerk in keeping the town's books up-to-date.

It should be noted that the relatively new Town Clerk has become much more knowledgeable about the operation of the Caselle program on which the town records are maintained, as a result of the efforts expended by the Town Clerk and the new Town Treasurer to get the town's records caught up to date for the fiscal year closing on June 30, 2006. The posting of expenses to the general ledger to the general ledger is also substantially current, as a result of implementing Caselle program's for payroll and accounts payable.

It was noted that your most recent February 9, 2007 correspondence to Virgin Town was addressed to Mayor Darwin Hall. The Virgin Town Mayor has been John Grow since January 4, 2006.

We trust that the foregoing addresses the points raised by our Town's Independent Auditors' Report. If you need more information on our specific responses, please contact us at 435-635-4695.

Sincerely,



Ray Golata
Virgin Town Clerk